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An Occasional Paper

The National Performance Review: Ways, Means And Massachusetts

by
Morton A. Myers
Senior Associate, Auditors Institute
Senior Fellow, McCormack Institute

May 1994

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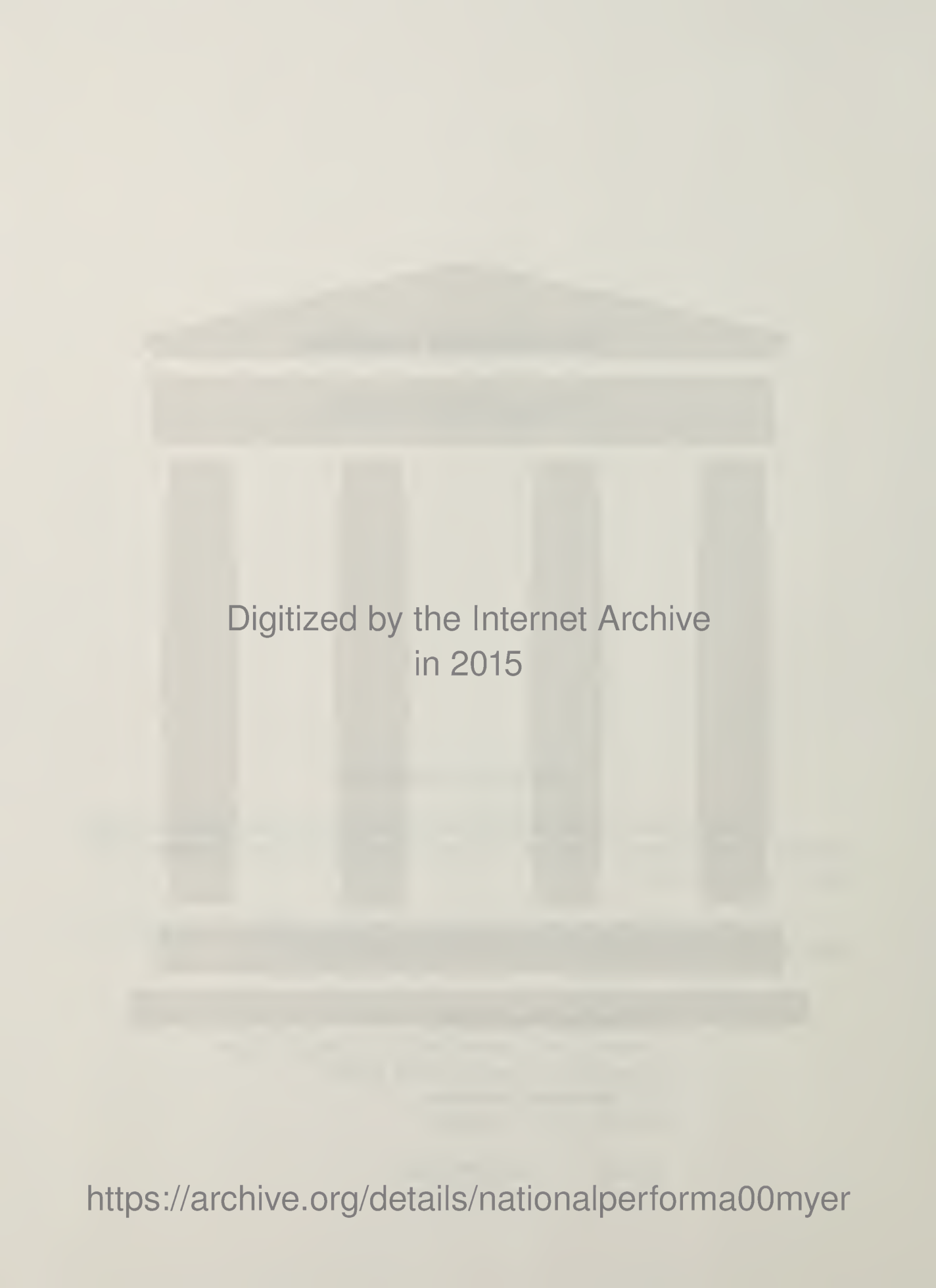
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EXECUTIVE SUMMARY

This paper provides provocative and constructive comments and thoughts on the recently issued report of the National Performance Review--the Clinton Administration's unabashed response to an amalgamation of federal government problems that need and deserve much better.

The Administration claims that massive savings of $108 billion are to be achieved by revamping how government programs are run, without regard to the substance and costs of the programs themselves. This paper challenges the savings claimed and points out that like similar initiatives in the past, the National Performance Review will result in some streamlining--the real dollar amount of which on some occasion may be asserted but in fact will never be known or measurable.

Some of the federal government's most costly hall of fame boondoggles--programs and actions not addressed in the report of the National Performance Review--are described in this paper. And for each example offered, the dollar impact on citizens of the Commonwealth of Massachusetts are estimated and presented. The amount of such savings, which depend in part on choosing between alternative options, range between $552 million and $1.2 billion.

The paper postulates that such programs were not dealt with in the report of the National Performance Review because the Administration could not afford to divert from other priorities the political capital necessary to do so. In other words, the Administration had concluded on the heels of a hard fought and narrowly achieved fiscal year 1994 budget victory that it did not have, or that it was not worth the expenditure of, the

political capital that would have been necessary to coerce Congress into making a series of politically painful program cuts.

All programs, even the boondoggles, have advocates and beneficiaries. The paper, in a section called "From Georgia With Love," describes the political difficulties and risks that would be encountered in obtaining agreement on which programs are passé, which don't work, and precisely which should be cut.

The paper suggests that the work of the National Performance Review should begin anew. However, this new effort would restructure the National Performance Review into a Congress-proof, base-closure-type commission--making it easier to eliminate or to alter "bad" federal programs.

Similarly, the paper concludes that the use of a base-closure-type commission in Massachusetts--to build on the work of prior state study groups--would also make sense in helping to solve some of Massachusetts' most gnawing fiscal problems.

Passage of the President's FY94 budget, with its higher taxes and "modest" spending cuts to lower the deficit, caused chagrin throughout the halls of Congress, particularly among those members who are new, or partisan, or with special interests. Thus, pressuring nearly every member of that august body.

A number of Presidential critics and friends alike have suggested the President increase his expenditure reductions over the next five years to an amount beyond the legislated $241 billion. In fact, twelve hours after Vice President Gore's tie-breaking vote gave President Clinton his vigorously contested budget victory, the President promised the nation to continue to look for ways to cut unnecessary spending and to trim waste. Part of the President's plan to do this is the National Performance Review--a program led by the Vice President with the objective "to make government work better and cost less."

The National Performance Review

Clinton Administration officials tell us that the National Performance Review will invent a government that serves its customers, empowers its employees, fosters excellence, creates a clear sense of mission, delegates authority and responsibility, replaces regulations with incentives, develops budgets based on outcomes, and measures success by customer satisfaction. This program rhetoric was explained in an interview with Vice President Gore, as follows.

Interviewer: "Can you lay out two or three areas where you think potentially big savings could result from the performance review?"

Vice President Gore: "I prefer not to focus on monetary waste, fraud and abuse....Our primary objective is to improve the quality of the services delivered and the relationship between the government and the American people." (Shoop, Government Executive, 1993)

Of concern here is that reinventing government seems to be about change first and savings second. Nevertheless, the report of the National Performance Review talks of estimated future savings of $108 billion, as follows:

	$Billions
Consolidation Combining or closing parts of various agencies, for example eliminating many Agriculture Department field offices	$36.4
Eliminating Jobs Cutting 12 percent or 252,000 positions from the federal payroll	40.4
Procurement Streamlining purchasing guidelines, giving managers greater discretion on a broader range of purchases	22.5
Information technology Consolidating and modernizing computer systems, particularly within law enforcement and benefit programs	5.4
Intergovernmental communication Reducing reporting requirements for state and local governments	3.3
TOTAL	$108.0

Source: Report of the National Performance Review

Clearly, we are being asked to accept that these dollars will be saved by reducing employment, changing the way the government purchases supplies and services, modernizing government computer and information systems, and simplifying paperwork and other overhead costs in grant programs to state and local governments.

In other words, this Administration will press for more regulatory reform ala Presidents Reagan and Bush; add large numbers of federal government workers to the rolls of the unemployed; and spend huge sums of money to purchase new computer systems and technology and the associated design, software, hardware, implementation, training, debugging, consulting, and transition demanded by such systems. The predictability of incurring heavy federal expenditures from these actions is a certainty because "improved" program administration of this type almost always requires additional spending, not less--and because shifting how money is spent is not the same as saving money. In the meantime, savings from eliminating program expenditures--those that would need specific congressional appropriation action--are largely and conspicuously absent from the recommendations of the National Program Review report.

Whether or not this is government reform, '90s style, it would behoove the Clinton Administration to remember a variation of the James Carville admonishment that brought the democrats to the White House, albeit on the apron strings of tangible deficit reduction--"It's about eliminating unneeded government programs, stupid." And John Houseman would say, "We should earn it the old-fashioned way, by cutting budget outlays and appropriations."

However, it is probable that the Administration has concluded on the heels of a hard fought and narrowly achieved budget victory, either that it presently does not have, or that it is not worth the expenditure of, the political capital that would be necessary to coerce Congress into making a series of politically painful program cuts. This is so because the President's current agenda also includes passage of (1) national health care

reform--despite questions of how affordable it is and significant opposition from parts of the insurance industry, medical profession, and small business community and (2) welfare reform--despite strong controversy within the President's own party on how this should be achieved. Also, debates and votes on these issues will follow in the memory of the Administration's gut-wrenching victory on the North American Free Trade Agreement.

Moreover, it is just not realistic to conclude that national deficit reduction can be accomplished while maintaining the present level of federal program funding and federal financial assistance to states and municipalities. This is particularly true because the Clinton plan to achieve deficit reduction is in addition to his plan to make health care available to the 37 million Americans who presently don't have any. And this will cost another $60 billion to $80 billion a year over five years between 1996 and 2000. (Gosselin, 1993)

To the extent that current federal assistance to state and local governments declines in favor of deficit reduction and increased medical coverage, how will state budgets meet expanding program needs or maintain existing program operating goals? To the Commonwealth of Massachusetts, this could be a billion dollar plus per year question. Of course, the precise answer to this question will depend almost entirely on the future line-up of deficit reduction items.

Much has been said about entitlement programs--the need to trim subsidies, control health-care dollars, and to tax more of Social Security. We have heard and read about cutting defense spending--achieving troop reductions and base closures, and having fewer weapons of mass destruction. We have listened patiently when told that shortening the

maturity of U.S. Treasury securities would reduce interest payments on the national debt. And while few federal legislators still argue publicly that higher taxes are needed, democrats and republicans alike will rhetorically claim that billions will be saved by streamlining government and eliminating programs that don't work or are no longer needed.

Like similar initiatives in the past, the National Performance Review will result in some streamlining--the real dollar amount of which on some occasion may be asserted but in fact will never be known or measurable. The problem, the argument, the gridlock, as always, will occur in obtaining agreement on which funded programs are passé, which don't work, and precisely which should be cut. It is probably for this reason that the recommendations of the National Performance review are so blatantly bereft of significant program cuts--those requiring specific dollar appropriations and outlays.

Some examples of potential program cuts and revenue raisers that would reduce the deficit while otherwise being considered neutral or beneficial to the citizens of the Commonwealth--and are not included in the recommendations of the National Program Review--deserve our attention.

Sowing The Scene

The United States Department of Agriculture (USDA), whose budget is the third largest of any civilian agency in the federal government, affects the lives of all Americans and of millions of people around the world.

Created 130 years ago to conduct research and disseminate information to farmers, USDA has expanded its role greatly over time. Programs are now designed to support

farm income, develop markets, boost farm production and exports, and provide consumers with food information and assistance. To carry out its mission in 1990, USDA spent about $46 billion, controlled assets of about $140 billion, and employed over 110,000 full-time employees in 36 agencies in over 15,000 locations worldwide. (GAO, December 1992) This mammoth operation is currently administering some of government's most costly hall of fame boondoggles.

It'$ Peanuts, OK, But It I$n't Cheap

USDA's program to support peanuts was started in the 1930s. Today, it is a program that costs U.S. consumers hundreds of millions of dollars each year--on average, between $314 million and $513 million more each year than they should pay for peanuts.

About 76 to 88 percent of these extra costs go directly to peanut producers as income. The remaining portion reflects inefficiencies in the way the program works.

Congress started the program in 1934 to control the domestic supply of peanuts and protect producers' incomes from the chaotic economic conditions of the Great Depression. These conditions ended over a half century ago.

The peanut program provides high returns to a small number of producers. Less than 22 percent of all U.S. peanut producers receive over 80 percent of the benefits. The peanut program is particularly generous to these producers because it sets peanut support prices at levels that virtually guarantee high net returns.

From 1982 to 1992, the annual support price averaged $697 per ton while the estimated cost of producing peanuts averaged only $463 per ton--a difference of $234, or a minimum net return of a whopping 51 percent. But there is more.

Because the support price under the program is required to increase each year when production costs go up but not to decrease when costs go down, the gap between prices and costs will continue to increase over time.

Peanut farming, like other U.S. agricultural operations, has become increasingly concentrated as smaller farms have been consolidated to form larger-scale operations. Furthermore, through technological advances and other improvements, such as increased applications of fertilizer, improved techniques for irrigation, and the development of new varieties of seed, peanut farms now produce yields nearly five times greater than the yields produced in 1934.

Yet, there is $34.4 million of taxpayers' money being spent by the federal government each year to operate this multi-million dollar consumer rip-off. (GAO, February 1993) Writing your congressman to cut this federal expenditure is worth your time and the price of a stamp. If this program is canceled it will save Massachusetts' citizens about $11 million per year (about $10 million at the grocery store and about $1 million as their share of the federal taxes that are used to pay for the program).

Try Saccharin Instead Of Sugar

USDA's sugar program protects domestic producers from lower world prices but has boosted domestic sugar prices, costing food manufacturers and consumers an average of $1.4 billion annually. About 40 percent of this amount goes to producers. Yet program benefits are concentrated among a relatively small percentage of farms. For instance, about 42 percent of the sugar grower benefits went to one percent of all sugar farms in 1991.

Although cane and beet sugar each represent about one-half of the domestic sugar market, the cane industry's benefits are more concentrated--17 cane farms received about 58 percent of the estimated cane grower benefits in 1991. Benefits for high fructose corn syrup manufacturers, which average $548 million annually, are also concentrated: Four firms accounted for 87 percent of production in 1990.

Foreign countries that export their quota sugar to the United States receive the supported domestic price, which is higher than the price these countries could receive on the world market. In its typically understated fashion, the U.S. General Accounting Office recommended almost a year ago that Congress should consider legislation that would move the sugar industry toward a more open market. (GAO, April 1993) Presumably, the medical and dental professions in this country would applaud if this action was taken. In the meantime, try saccharin or continue to pay about $33.6 million more each year for sugar in Massachusetts than would be paid if this program did not exist.

Buy American

Congress authorized more than $1.25 billion for USDA's Market Promotion Program during fiscal years 1986 through 1993, yet there is no clear relationship between the amount of money spent on the program and changes in the level of United States agricultural exports.

The program works with not-for-profit associations that either run market promotion programs themselves or pass the funds along to commercial firms to promote their own brand-name products. In addition, USDA has done few evaluations of the efforts funded by the program. USDA cannot be sure that in the absence of the program,

participants would not have funded these activities by themselves.

The program's stated goals--to encourage the development, maintenance, and expansion of foreign markets for United States agricultural products--are so broad that they could provide a rationale for continued support under almost any market situation. (GAO, June 1993) And they did.

While a simple singular causal effect does not exist, it is worth noting that between 1980 and 1990 the United States share of world agricultural exports declined from about 29 percent to about 22 percent. (GAO, December 1992) Unfortunately, and without evidence, the "Buy American" folks will say that the declining U.S. share of the world agricultural market would probably have declined even more precipitously than it did in the absence of this program. However, unless evidence of programmatic benefits are forthcoming--and they never have been--this program should be canceled while the United States still has a share of the world market to protect. And doing so would make about $6.6 million more of the federal taxes contributed by Massachusetts' citizens available yearly.

A Visit To The Money Store

In 1989, a borrower received a $132,000 direct farm operating loan from the Farmers Home Administration (FmHa) even though, just 2 months earlier, he had received about $428,000 in debt relief. By March 1991, he was $28,000 past due on payments. Similarly, in 1990, FmHa guaranteed a $189,000 loan to a borrower whose direct loans had been reduced 8 months earlier by about $216,000. By April 1991, this farmer was $94,500 past due on the guaranteed loan's payments. (GAO, April 1992)

FmHa, a USDA agency, is the third largest institutional lender to the nation's agricultural sector. Its mission is to provide temporary financial assistance to farmers who are unable to obtain commercial loans at reasonable rates and terms. FmHa is expected (1) to provide high-risk borrowers with temporary credit to enable them to stay in farming until they are able to secure commercial credit and (2) to do so in a way that protects the taxpayers' investment.

This program is marred by a high rate of defaults. Of FmHa's roughly $20 billion direct loan portfolio, 70 percent--or more than two-thirds--was held by borrowers who were either delinquent or whose loans had been restructured as a result of, or to avoid, delinquency.

In recent years, FmHa has provided about $7.6 billion in debt relief to delinquent borrowers in addition to interest subsidies. FmHa incurs interest subsidy expenses because it (1) lends money at rates below its cost of borrowing and (2) provides payments to commercial lenders so that they will lend money at rates below their cost of borrowing. Despite relief of this magnitude, billions of dollars more in outstanding direct and guaranteed loans are held by borrowers who are unlikely to meet some or all of their loan obligations.

During fiscal years 1989 through the first three quarters of 1992, FmHa forgave about $3.1 billion in direct loan obligations under the debt-servicing provisions of the Agricultural Credit Act of 1987, writing down (reducing) some debts by about $1.2 billion and writing off (forgiving) other obligations by about $1.9 billion. FmHa wrote off another $4.5 billion in the course of settling direct loan obligations with borrowers who

had generally ceased to farm--thus, failing to meet the fundamental program objective of this loan program. During this 3-3/4-year period, FmHa also paid commercial lenders about $200 million to cover guaranteed loan losses. (GAO, December 1992)

This program is an example of welfare farming. And like some other forms of social welfare, billions of dollars in taxpayers' money have been made available for a program that has not worked. This program neither keeps farmers farming nor "down on the farm." The reason is that changes in urban/rural demographics in the U.S. have multiple, extremely complicated causes that over time have little if anything to do with FmHa loans or guarantees. What is less complicated and has everything to do with FmHa loans and guarantees is that during the period of 1989 through the first 3 quarters of 1992 about $246.5 million of the tax money spent to support this program came from the citizens of the Commonwealth.

The Darling Of The Insurance Industry

The federal crop insurance program has experienced many problems since Congress reformed it in 1980. At that time, private insurance companies began bearing some of the risk associated with the federal crop insurance policies they sold, and USDA's Federal Crop Insurance Corporation (FCIC) assumed, through a reinsurance program, some of the companies' potential liabilities.

Problems have contributed to the program's inability to meet many of the goals Congress set for actuarial soundness, private sector risk sharing, and participation. In addition, the providing of ad hoc disaster payments has undercut the role of crop insurance as the nation's primary way of delivering disaster assistance. During the 1980s,

the government bore most of the risk for excess program losses.

To ensure that companies would participate in the program, FCIC's reinsurance terms effectively shielded the companies from these losses. In fact, the reinsured companies collectively realized small profits in the years when the policies they sold had large losses. From 1981 to 1990, FCIC sustained over $2.3 billion in excess losses, while the reinsured companies had net gains, through underwriting, of $101 million.

Under the 1990 farm bill, reinsured companies will bear more risk than they did in the past. The degree of company risk, however, will remain modest relative to the government's liability. Because the federal crop insurance program will likely experience continued excess losses, reinsured companies will have neither the capability nor the incentive to assume significantly greater risk. (GAO, January 1992)

In Massachusetts, which is among this nation's most expensive states for buying automobile insurance, one can only imagine what it would be like if USDA's FCIC were in charge of reinsuring the Commonwealth's automobile insurance companies. However, what is not a fantasy is that during the decade of the eighties those who live and work in Massachusetts paid approximately $72.7 million in federal taxes to support this program.

IT'S TIME TO RAISE SOME REVENUE

A number of other agriculture programs--beyond those already presented and the few recycled offerings of honey, wool, and mohair in the Vice President's National Performance Review report--can also be used as examples of ways to reduce the deficit while being of particular benefit to the citizens of the Commonwealth. (NPR, 1993) But

rather than continue to use illustrations that could convey a bias against this nation's farm programs, it is time to switch bases and to identify and discuss some sources of potential revenue that are not mentioned in the recommendations of the National Performance Review report.

Who's Hitting Clean Up?

Disposal of hazardous waste at thousands of landfills, industrial plants and other locations across the country has contaminated these sites and endangered nearby communities. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) created the Superfund program to clean up the most dangerous of these sites. Originally given $1.6 billion and a 5-year life, the program has twice been reauthorized and now has a spending cap of $15.2 billion; it is expected to run indefinitely. As of September 30, 1992, EPA had identified 1,275 Superfund sites, no more than 30 of which were in Massachusetts.

CERCLA authorizes EPA to compel parties responsible for contaminated Superfund sites, such as waste generators, waste haulers, and site owners or operators, to clean them up or to reimburse EPA for a government funded cleanup. In recent years, EPA has compelled many responsible parties to perform cleanups directly but has recovered only a small part of the program's cost.

EPA lacks information to adequately manage the recovery effort. Cost recovery records are incomplete and unreliable. National figures on costs expended and recovered are only approximations. Field offices have not documented what costs they have and have not sought to recover. Because its data are so poor, EPA cannot explain why so few

costs have been recovered. As a result, the federal government has been left footing much of the bill for remediating environmental problems created by responsible parties.

Beginning in 1989, EPA strengthened its efforts to get responsible parties to meet their cleanup obligations in an initiative called "Enforcement First." This approach gave clear preference to privately financed cleanups over Superfund-financed cleanups and increased Superfund's enforcement resources and activities. This new emphasis worked. EPA increased the annual value of privately funded cleanups from $207.5 million in fiscal year 1987 to more than $1.5 billion in fiscal year 1992.

EPA's improved record for compelling privately funded cleanups contrasts sharply with its low recovery of Superfund expenditures. At the end of fiscal year 1992, EPA had disbursed $7.3 billion in federal funds for the Superfund program and had classified about $5.7 billion of this amount as recoverable from the responsible parties. Additional amounts will be classified as recoverable as ongoing cleanup projects are completed.

Yet EPA had agreements with responsible parties or court orders to recover only about $795 million--just 14 percent of the $5.7 billion--and actually collected $546 million--10 percent of the total recoverable. (GAO, December 1992) This collection effort is deplorable. It is to be hoped that the hazardous waste site cleanups are being accomplished more effectively than this debt is being collected. Yet, it still seems remarkable that Vice President Gore's National Performance Review report is silent on this gross environmental program failing. Nevertheless, increased deficit reduction is the direct beneficiary of any increased debt collection in this area. If the entire $5.7 billion were to be collected, the Massachusetts share would total around $137 million.

My Home Is My Castle

Capping the mortgage interest deduction at $12,000 per single return, $20,000 per joint return, and $10,000 per return for married couples who file separately would raise about $21 billion in revenues in 1994 through 1998. These limits are much higher than the deductions most taxpayers claim. Of the 27 million taxpayers who claimed the interest deduction in 1990, only about 1.4 million (5 percent) had deductions that exceeded these limits; the average deduction for home mortgage interest was about $7,200. Based on February 1993 interest rates, the proposed $20,000 cap would allow full interest deductions for families on new fixed-rate mortgages up to $250,000. Only 4 percent of all new mortgages originated in 1992 were for amounts of $250,000 or more.

Capping mortgage interest deductions would retain the basic tax incentive for home ownership without subsidizing the luxury component of the most expensive homes and vacation homes. Because the caps are higher than the deductions nearly all homeowners now take, the caps would affect home prices and home building in only a small segment of the market. And because the proposal would not index caps for inflation, their real value would gradually decline. Moreover, phasing down the deduction gradually as it is introduced would cushion the effects on current homeowners and the homebuilding industry.

Like other limits on interest deductions, the cap would be more restrictive in areas with higher housing costs. Further, in periods of high interest rates, the limits would affect recent home buyers and those with adjustable-rate mortgages more than longer-term owners with fixed-rate mortgages. (CBO, February 1993)

Another option would be to reduce the amount of the mortgage eligible for deduction. Lowering the limit on the amount of principal eligible for the mortgage interest deduction from $1 million to $300,000 would reduce deductions for about 780,000 taxpayers with large mortgages and increase revenues by about $13 billion over the 1994-1998 period. This change would reduce the deduction only for owners of relatively expensive homes. It would not affect the vast majority of homeowners, but would impose large adjustment costs on some homeowners in high-cost housing areas. (CBO, February 1993)

A final option is to limit the deductibility of interest on the debt that taxpayers incur to acquire and improve a primary residence, plus $100,000 of other debt secured by that home. This approach would require interest deductions for second homes to qualify under the $100,000 limit on home-equity loans. The proposal would increase revenue in 1994 through 1998 by $1.4 billion. The current-law deduction provides special treatment for taxpayers who borrow to own second homes, in contrast to taxpayers who cannot deduct interest when they borrow to finance education, medical expenses, and other consumer purchases. (CBO, February 1993)

The savings to Massachusetts from the options presented above would approximate over the 1994-1998 period either $663.6 million, $212.8 million, or $44.2 million depending on the option selected.

From Georgia With Love

Nothing is easy. Not even the elimination of USDA's peanut program because all programs have advocates and beneficiaries. If this paper was being prepared in Athens,

Georgia, it could easily advocate that Congress reduce the 50 percent floor on the federal share for payments of Medicaid.

Currently, the federal government and the states jointly pay for the Medicaid program. The federal share of the costs of this program varies with a state's per capita income. High-income states pay for a larger share of benefits than low-income states. By law, the federal share can be no less than 50 percent and no more than 83 percent. The 50 percent federal floor currently applies to 13 jurisdictions: Alaska, California, Connecticut, Delaware, the District of Columbia, Hawaii, Illinois, Maryland, **Massachusetts**, New Hampshire, New Jersey, New York, and Virginia.

Under this deficit reduction option, the 50 percent floor would be lowered to 45 percent, generating federal savings of about $5 billion in 1994 and a total of $35.2 billion over a five year period. Both estimates assume that states would partially offset their higher costs by reducing program benefits. (CBO, February 1993)

On the basis of current program levels, however, the impact of this potential deficit reduction option to the Commonwealth for Medicaid would appear to be about $155 million in 1994 and not less than an overwhelming $775 million over the 1994-1998 period. This estimate was computed on the basis of Massachusetts' share of medicaid expenditures for calendar year 1991, about $3.045 billion. However, because of the federal savings of about $32.5 billion, the **net cost** to Massachusetts from this potential federal revenue raiser is about $523 million over the 5-year period of 1994 through 1998. This occurs by applying the same factor that was used to approximate savings to the Commonwealth from reduced federal expenditures and increased revenues in some of the

earlier examples--namely, 3.16 percent--the Commonwealth's 1990 share of the total U.S. federal tax burden. (Barone and Ujifusa, 1991) In addition, it is assumed that there would be an effort in the Commonwealth to continue to provide, as nearly as possible, its **current level** of medicaid service.

Think of it this way.

If the federal government saves	$32.5 billion
Massachusetts at 3.16% saves	$1.027 billion
But its federal medicaid match is reduced	$775 million
So at this point we are ahead by	$252 million
But to keep medicaid levels as is we need	$775 million
So we are short	$523 million

The purpose of this illustration is to note (1) the existence of one of the many deficit reduction options that could be "on the table" for which no Massachusetts contingency exists and (2) how difficult it could become if Massachusetts congressmen and senators decided to vote to eliminate USDA peanut and similar programs. The Georgia congressional contingent as well as congressional contingents from supportive agricultural states could decide not to get angry but to get even. If they went this route, an examination of peanut producing states shows clearly that they would field a formidable array of players--Alabama, Florida, Georgia, North Carolina, Oklahoma, Texas, Virginia, and others. (GAO, February 1993)

This also helps to explain why the National Performance Review report deals almost exclusively with how well programs are administered rather than dealing with the

programs themselves, which is really what matters. For instance, continuing to operate the peanut program but operating it more efficiently does not seem to be a very satisfactory government improvement.

Underlying the political rhetoric we demand from the President and Congress--especially when the economy is not working well--is a real concern and genuine quest for improved government. For the present, that concern may mean fewer government activities and more operational streamlining, but eventually it must also mean programs that are more cogently chosen, more effectively designed, and more equitably applied (Myers, 1984). The National Performance Review does not do this.

Here Are Some Reasons Why

Since enactment of the President's FY94 budget, much of the pressure for continuing to consider deficit reduction as this nation's number one economic priority (ala Perot, Rudman, and Tsongas) is off until at least the next round of presidential budget submissions--those for fiscal year 1995. The debates on these submissions have already started to heat up. But the debates that ensue will likely be more tempered than those surrounding the FY94 budget, if only because there is no accompanying presidential race. Another reason for the likelihood of less virulent debate is that through the first 11 months of fiscal 1993, the federal government's budget deficit was down 11 percent from the same period of the year before, partly because economic growth raised tax revenue six percent ($296 billion from October 1991 through August 1992, compared with $263 billion from October 1992 through August 1993). (McLean, 1993) However, when administration officials take credit for this successful "trend" they will likely attribute it, at

least partially, to the National Performance Review. Don't believe them.

Although the National Performance Review recommendations can create an environment for change, they cannot guarantee it. The ultimate success of this effort will depend on how its recommendations are implemented, a complicated set of long-term tasks left largely to the agencies and Congress, and whether or not the recommended changes actually save money and improve government performance (two major unknowns). Making these changes work will require, among other things, sustained commitment and cooperation between Congress and the Administration. In the meantime, health care reform (including abortion), welfare reform, Bosnia, Somalia, Haiti, China, and the continuing Arab-Israeli peace negotiations, to name just a few areas of current concern, will also be vying for sustained commitment and cooperation between Congress and the Administration.

Unfortunately, the National Program Review focused on how government should work, not on what it should do. A national program review could have and should have done both. But according to Vice President Gore, "Our job was to improve performance in areas where policymakers had already decided government should play a role." And President Clinton said when he announced the National Performance Review that "This performance review is not about politics." (NPR, 1993) These statements are misguided because it is wrong to operate a bad or unneeded program well. And the reason bad programs continue to exist <u>is</u> politics.

We spend $25 billion a year on welfare, $27 billion on food stamps, and $13 billion on public housing--yet more Americans fall into poverty every year. We spend

$12 billion a year waging war on drugs--except alcohol and tobacco. We fund 150 different employment and training programs--yet the average American has no idea where to get job training, and the skills of our workforce fall further behind those of our international competitors. Such programs must be either consolidated, discontinued or significantly altered, in addition to being improved administratively. It is almost as if federal programs were designed not to work. In truth, few are designed at all; the legislative process simply churns them out, one after another, year after year (NPR, 1993). Similarly, the administration introduces them, one after another, year after year. This is politics. And to stop spending money on programs that are inappropriate or don't work well will necessitate political solutions.

In fact, Vice President Gore conceded that because his performance review concentrated on "how" government could operate more smoothly, another commission would have to address the theme of "what" government should take on. (Buckley, 1993) The Vice President's admission is four square because most federal spending comes not from paying bureaucrats to administer programs such as welfare but from the programs themselves.

> "The best evidence of this is that although the federal government today spends about 10 times more than it did in 1963, only the tiniest fraction of that rise has come from increases in pay and support to federal civilian employees (even with pay raises factored in). The number of employees has, remarkably, remained nearly constant over this period...The reason the government costs so much is that it does so much." (Dilulio, 1993)

In fact, per capita federal employment has dropped significantly in recent years. Excluding the post office and military, federal employees per 10,000 population have gone down from 111 in 1966 to 89 in 1992. (Carey and Vancura, 1993)

Yet, the National Performance Review promises to eliminate 252,000 positions over the next five years, or 12 percent of today's national federal work force. According to the report of the National Performance Review, this single action is supposed to save $40.4 billion, or more than 37 percent of the total of the report's claimed savings of $108 billion. Nevertheless, only about six percent of the nondefense federal budget goes into the direct administration of anything. Most federal workers (except for the likes of prison wardens and air traffic controllers) supervise a vast network of contractors reaching all the way to state and local governments (Dilulio, 1993).

Massachusetts watch out. If there are fewer federal employees operating in the Commonwealth in the future, some of the gaps created by their loss will have to be filled by other levels of government. In addition, the action to reduce the federal work force will burden Massachusetts with about 6,600 more unemployed people and, at the same time, cause the Commonwealth to lose state income taxes.

Recycle The National Performance Review

Much past work of the U.S. General Accounting Office is referred to and cited throughout the report of the National Performance Review. The report acknowledges, "We had the GAO's 28 volume report on federal management problems, published last fall. We had GAO's High-Risk Series, a 17-volume series of pamphlets on troubled programs and agencies." The use of these 45 GAO summary, cumulative-type reports and other GAO documents helps explain the ability of the National Performance Review to publish the results of its investigation, complete with recommendations, in only six-months. To have done more work, particularly in the area of on-going federal programs,

would have required more from the National Performance Review--including time and a somewhat different approach.

Ironically, no less an authority than the Comptroller General of the United States, the head of the GAO, has concluded that President Clinton's February 1993 executive order to reduce administrative waste and improve agency productivity might do more harm than good. The Comptroller General points out that across-the-board reductions are blunt instruments, indiscriminately affecting both efficiently managed programs and wasteful activities. (Globe, 1993) Perhaps, the National Performance Review should continue the job it has started but, in doing so, it must butt heads with the programs being operated by the federal government as well as grappling with how they are being administered. And the new work of the National Performance Review would need to be carefully worked out so that the continuing effort will be complementary and mutually supportive of the work already accomplished.

The most obvious technique of dealing with policies and programs already in effect would be to change the National Performance Review into a base closure and realignment type commission; then appoint to it a small number of impeccably credentialed, blue-ribbon commissioners who would be charged with making the hard decisions that no one else in Washington seems to be willing to make. Congress can tolerate only so much conflict. The process employed by the Base Closure and Realignment Commission seems to have worked with relative ease--without the grinding politics and difficult votes that would have attended a base-closure exercise undertaken through normal congressional procedures (Ward, 1993). Basically, the procedures of such a commission would call for

the Congress to only vote up or down on the National Performance Review's entire package of recommendations, which would be expanded to include the elimination and alteration of existing programs. This would work for peanuts and sugar as well as Medicaid.

Richard Stone, project director for Vice President Gore's National Performance Review, told an audience last June that a commission-type process might be the only way to get Congress to make fundamental changes in federal agencies' budget and personnel systems. Of course, a consensus hasn't yet developed that a base-closure-type commission is needed to reshape the domestic side of government. The creation of a Congress-proof commission for military bases was a response to the unquestioned need to shrink the military after the Cold War ended--a need that isn't so clear with regard to domestic programs. Yet, the approach (1) relieves politicians from having to make unpopular decisions, (2) ensures that the recommendations make it to House and Senate floors, (3) is relatively quick, and (4) prevents any last-minute tinkering with the panel's final verdict (Ward, 1993).

Thus, instead of continuing to sell the public on the current version of the National Performance Review, the President, Vice President and the rest of the Clinton Administration would serve the public better and be better served themselves by persuading Members of Congress that they and the Administration need the help of a base-closure-type commission to appropriately revamp the federal government. Also, adding high-level strength from outside of the federal government will contribute to the credibility of the National Performance Review, permit it to be deemed a success by more

easily achieving a societal consensus and, with a little luck, finally make it easier to eliminate or to alter " bad" federal programs.

A similar approach to help solve some of Massachusetts' most gnawing fiscal problems might also prove timely. For instance, there exists some highly expert, professional work performed by special groups in Massachusetts on the many questions of governmental well-being--Governor Weld's "Choosing To Compete" and former Governor Dukakis' "Report of the Governor's Task Force on Local Finance," to cite just two examples. Nevertheless, a recent McCormack Institute publication, "Fiscal Smell Tests: A Mid-Term Reality Check Of Massachusetts Finances," shows that certain big-ticket budget busters--Medicaid, MBTA/regional transit, and a few others--are chiefly responsible for the state's massive negative end-of-year budget balances, and for prolonging its structural deficit (Slavet and Barresi, 1993). This document tells us also that there are glaring examples of programmatic under-funding, such as education, in the states' FY94 budget. And finally, that despite the perilously slim margin of budget balance for FY94, it is difficult to comprehend the list of budgetary proposals that expands the use of tax expenditures and fee reductions, thereby further eroding the Commonwealth's constrained revenue base (Slavet and Barresi, 1993).

Because the economics of state and local government in Massachusetts continue to be fragile, offering the Commonwealth a prescription for state and local government operating affordability and reform makes sense. And because more needs to be done, a question worth thinking about is, "Should the Weld administration and the legislature create a base-closure-type commission to recycle and to build on some of the Commonwealth's prior work?"

END NOTE

The Commonwealth's share of federal expenditures and potential revenue raisers was computed using Massachusetts' 1990 share of the total federal tax burden: $33,024,000,000--3.16% of the U.S. total, or this nation's 10th largest. The Commonwealth's share of commodity price gouging was computed using Massachusetts' 1990 population: 6,016,425--2.4% of the U.S. total, or this nation's 13th largest.

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